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SUBJECT: JORDAN'S GRAIN SUBSIDY PROGRAM: INSIDERS CALL FOR CASH
PAYMENTS TO THE NEEDY TO REPLACE MARKET DISTORTING SUBSIDIES

REF: A) AMMAN 816
B) AMMAN 815
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¶1. (SBU) SUMMARY: As part of the Government of Jordan's broader economic reform program, plans exist to completely liberalize the grain and feed trade, but public opposition has thwarted attempts to eliminate subsidies. A partial lift of the barley subsidy in the fall of 2007 led farmers to feed their herds wheat. To counter this action, the Ministry of Industry and Trade (MoIT) switched from a wheat subsidy to a subsidy for certain types of flour. Consumers responded by buying products made from subsidized flour, further driving up wheat costs and government expenditures and also creating a black market for flour. A series of attempts to manage the flour subsidy program has failed; MoIT technocrats as well as millers are now calling for an immediate end to the subsidy program and for the establishment of a focused cash payment program in its place to assist the neediest Jordanians. END SUMMARY.

## ROYAL DECREE MAINTAINS FEED SUBSIDIES

¶2. (U) BACKGROUND: King Abdullah directed the GOJ on March 16 to delay the planned price hike for subsidized feed, marking the second setback to recent efforts to liberalize fully the feed and grain market. The GOJ's previous attempt to lift fodder subsidies was in August 2007, but the government in place at that time rescinded its decision due to political unrest and demonstrations by farmers who blocked the main road to the airport (ref E). The March royal decree, which also delayed the expected price increase for canisters of LGP used for cooking and heating, was an attempt to deflect public criticism resulting from the continuing rise in the cost of basic food items, increasing fuel prices, and growing inflation. The decree came two months after the liberalization of prices for most petroleum products and one day after the rise of electricity prices (ref B). END BACKGROUND.

## Black Market Flour

¶3. (SBU) Liberalization of the grain market is a stated goal of MoIT, which both buys and sells animal feed (primarily barley) and wheat, average monthly consumption of which is 60,000 MT. Following the fall 2007 partial lift of the barley subsidy, its price in the open market jumped from $130/ton to $456/ton; subsidized barley, available only to farmers with small herds, sold at $213/ton. This price increase prompted farmers and millers to use cheaper, subsidized wheat ($134/ton) as a supplement to animal feed, thereby increasing wheat consumption to 85,000 MT. In response, MoIT introduced a mechanism to try to control the seepage of wheat into the feed business. The initiative also sought to cut the $70 million in new costs due to increased wheat consumption by charging mills the actual price of wheat, including transportation costs, and shifting the subsidy to flour. MoIT further contracted a private distributor to limit the development of a black market for flour. Despite these efforts, according to one miller, "The government in its attempts to close a leak created many other holes," among them a huge price discrepancy for two similar products.

¶4. (SBU) The discrepancy stems from different price structures for types of flours that most consumers and vendors use interchangeably. Local millers, after purchasing wheat from MoIT at $398/MT, produce a variety of flours -- 78-82 percent extraction for subsidized "Baladi" bread, 72 percent extraction for all-purpose "Zahra" flour, and 55 percent extraction known as "zero" flour for pastries -- to be sold to distributors and bakers at an average government rate of $142/MT. Given the difference between the price of one ton of wheat and one ton of flour, MoIT compensated millers $338/MT for the production and sale of Baladi flour. This subsidy lowered the consumer price for Baladi bread, and many Jordanians switched from non-subsidized bread made from more refined flour and sold at $1/Kg to Baladi bread, sold at $0.22/Kg. Demand for the less refined flour increased, and one miller reported that 95 percent of his production was subsidized flour. Additionally, as millers were contracted to produce a certain amount of flour, they had the right to sell excess flour and many sold it on the black market. Bakers did the same; a baker earning $1.40 in profit for baking bread using one 50-kg sack of subsidized flour could make $15 or more by selling that same sack of flour on the black market. MoIT Secretary General Montaser Okla told EmbOffs that "trading in the flour market is now more lucrative than smuggling narcotics."

## MoIT Opts for Plan B

¶5. (SBU) In an attempt to cut costs and encourage consumers to return to non-subsidized bread, MoIT began subsidizing "zero" flour at a rate of $112/MT which millers then sold to bakers at $483/MT. The Ministry also created a new flour extracted at 75 percent and subsidized at $306/MT for sale by millers to bakers at $243/MT. With rising world wheat prices and increases in transportation costs, this approach was not viable. Hassoneh Mhilan, MoIT Director of Storage, worried that at this rate "we'll end up giving the wheat and money to mills to maintain the [low] price of bread." MoIT has since modified the flour subsidy program six times in only four months, and the process remains under review. For the moment, MoIT has settled on a program through which it sells wheat to millers at $468/MT, and the millers sell subsidized flour to bakers at $91/MT. MoIT compensates millers $480/MT for subsidized flour.

## Market Liberalization the Only Solution

¶6. (SBU) MoIT technocrats and the majority of millers argue current practices are not sustainable, and believe the best option is for GoJ to provide direct cash payments to the poor just as it is doing with fuel. Using an average individual consumption of 100 kg/flour per year and targeting a population of 600,000 families whose per capita income is below $1,400, a payment program would cost the GoJ $120 million per year instead of the $263 million it is currently paying. Jamal Al Hazaa, CEO of Al Hazza Group (an Iraqi-owned family business that dominates the milling industry in Jordan and owns some Egyptian mills), foresees the end of the subsidy era and recommends that the GoJ focus on investing in increased silo storage capacity. Likewise, Hassan Saudi, General Manager of Jordan Silos & Supply General Company (an entity owned by the GoJ and slated for

privatization), told FAS FSN that the company is hindered by government inefficiency and excessive regulation. He anticipates that privatization will eliminate many of the current problems and also increase his company's overall wheat storage capacity by 60,000 MT to 200,000 MT. Hazaa is also planning to increase his company's storage capacity to 165,000 MT. The GoJ wants to increase its strategic wheat reserves, and Hazaa maintains that increased storage capacity would result in fewer, but higher volume shipments, and make American wheat more competitive against European or Black Sea region sources. Relocation and expansion of the Aqaba Port would also allow for the berthing of larger vessels and facilitate building this wheat capacity. Hazaa is looking for a strategic U.S. partner to help increase demand for American wheat and create a regional storage hub in Jordan. He asserts that if Jordan does not act quickly "the flour industry would be taken over by big Gulf players."

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